Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Required Report - public distribution

Date: 3/18/2003

GAIN Report #SA3002

Saudi Arabia

Grain and Feed

Annual

2003

Approved by:
Quintin Gray
U.S. Embassy, Riyadh
Prepared by:
Hussein Mousa

Report Highlights:
The MOA announced mid February 2003 it decision to stop subsidizing locally grown barley from next production season. Next year's demand for imported barley is forecast to increase slightly. All aspects of wheat continue to be controlled by the Ministry of Agriculture's agency Grain Silos and Flour Mills Organization (GSFMO.) Government policy is for farmers to produce only enough wheat to meet domestic needs, currently about two million metric tons. Rice imports this year are forecast to increase by 9 percent from last year's level.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Riyadh [SA2], SA

TABLE OF CONTENTS

I. THE CURRENT BARLEY SITUATION

Overview:

Local barley production for this marketing year (MY) is estimated at 100,000 metric tons (mt). This year's barley production will be the last time the Saudi Ministry of Agriculture (MOA) will purchase locally produced barley from farmers. The MOA announced mid February 2003 it decision to stop buying locally produced barley from farmers at the Government Purchase Price (GPP) of $267.67 per metric ton starting from the 2003/2004 production season. The MOA decision was communicated to grain farmers in late February. Water conservation and economic reasons are the main factors behind the Government's decision to drop the local barley production subsidy.

The government's change in the local barley production policy is expected to affect very limited farmers since most of them have been voluntarily out of barley production for the past several years since they do not find the GPP of $267.67 per metric ton attractive enough. Farmers claim that their production cost is very close to the GPP. The per metric ton C&F price (free port) for imported barley arriving at Saudi ports ranged between $128 and $135 at the end of February. Major barley importers have reported that they have received price quotations ranging between $139 and $147 per metric ton for April arrivals.

Production, Supply and Distribution Table (PSD) Table for Barley (unit: 1000 mt):

PSD Table						
Country:	Saudi Arabia					
Commodity:	**Barley**					
	2001		2002		2003	
	Old	New	Old	New	Old	New
Market Year Begin		07/2001		07/2002		07/2003
Area Harvested	57	17	17	17	0	0
Beginning Stocks	1077	1101	1027	1111	1081	1101
Production	400	100	100	100	0	0
TOTAL Mkt. Yr. Imports	5000	5720	5800	5730	0	5840
Oct-Sep Imports	4500	5760	5400	5770	0	5880
Oct-Sep Import U.S.	150	0	150	0	0	0
TOTAL SUPPLY	6477	6921	6927	6941	1081	6941
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0
Oct-Sep Exports	0	0	0	0	0	0
Feed Dom. Consumption	5450	5800	5846	5840	0	5940
TOTAL Dom. Consumption	5450	5810	5846	5840	0	5940
Ending Stocks	1027	1111	1081	1101	0	1001
TOTAL DISTRIBUTION	6477	6921	6927	6941	0	6941

Imports:

The demand for imported barley this year is forecast to remain strong due to below average pasture conditions resulting from meager rainfall so far this season and the increased livestock imports from major supplying countries (Sudan, Jordan, Syria and Australia.) Imported live sheep/goats (estimated at seven million head annually) and camels are usually kept by traders for up to three months during which they are mostly fed barley since it is the most inexpensive animal feed in the Kingdom (due to the government subsidy) compared to other feed alternatives.

Marketing year (MY) 2001 barley imports (July 1, 2001 - June 30, 2002) are put at 5.7 million metric tons per data provided by trade contacts, an increase of more than 550,000 metric tons compared to the previous MY. Barley imports for the first eight months of MY 2002 (July 2002-February 2003) are estimated at four million metric tons. Next MY's demand for imported barley is forecast to increase slightly due to the Saudi Government's decision to stop subsiding local barley production.

In CY 2002, the European Union (EU) lost its dominance in the Saudi barley market to its main rivals Australia and the Black Sea suppliers (Ukraine and Russia). According to information obtained from barley traders, 6, 216,807 metric tons of imported barley were unloaded at the six Saudi ports last year, an increase of 39.2 percent compared to CY 2001 (4,467,880 mt). Ukraine supplied 24.8 percent in CY 2002 (vs. 17 percent in CY 2001) of Saudi barley imports followed by Australia (24%), Russia (14.7%), Germany (13.6%), Romania (5.7%), Turkey (5.1%), France (4.6%), Holland (3.5%) and other countries (7.5%). According to trade sources, there are increased imports of barley from black sea countries thus far this year compared to the same period last year. One of the main reasons attributed to the increase in the black sea barley exports to the Kingdom is the reported shortage of exportable Australian barley due to lower barley production last crop year caused by the reported below average rain falls in most barley producing regions of Australia.

Jeddah remained the main barley import port among the six Saudi ports that handle imported bulk barley. In CY 2002, about 43.8 percent of all barley was imported through the Jeddah Islamic Port, followed by Dammam (23.9%), Jubail (16.3%), Yanbu (7.1%), Gizan (6.4%) and Diba (2.8%)

Specifications:

In order to differentiate imported barley from locally produced barley, the GSMFO requires that 5 percent of imported barley be colored with carmosine. Currently, local barley production accounts for about 1.5 percent of the total annual supply.

Saudi barley importers normally buy barley based on standard specifications of the country of origin (EU, United States, Canada, and Australia). The following are specifications for U.S., European and Australian origin imported barley obtained from a major Saudi grain importer:

U.S. Barley

Sound, Loyal & Merchantable quality
Test weight per bushel: 45 lbs. minimum
Moisture maximum: 14.5 percent
Foreign Matter maximum: 2 percent
Damaged kernels maximum: 4 percent
Colored barley not less than 5 percent of total shipped quantity
Goods to be free from live weevils, insects, diseases, foreign smell and materials.

__**EU and Australia**__

Sound, Loyal & Merchantable quality
Colored barley not less than 5 percent of total shipped quantity
Goods to be free from live weevils, insects, diseases, foreign smell and materials.

1. In case of EU or Turkish origin:
   Test weight: 62/63 KG/HL.
   Moisture 15 percent
   Foreign Matter: Max 2 percent

2. In case of Australian origin:
   As per Australian Grain Board Specifications

Saudi traders often employ brokers to buy barley. Several traders use brokers based in Beirut.

Government Subsidy on Imported Barley:

On June 11, 2000, the Saudi government issued a decree to temporarily reinstate a barley subsidy program following an outcry by traditional livestock farmers who were unable to feed their herds when the retail price of 50 kg of barley reached SR 31 ($8.27) and the C&F (free port) at Saudi ports averaged $130 per metric ton. About 80 percent of imported barley is used by traditional farmers feeding sheep, camels, and goats. The farmers depend heavily on barley when pasture conditions in the Kingdom are poor.

The decree instructed barley importers to sell a bag of 50 kg of imported barley at Saudi Riyals (SR) 18 ($4.80) or $96 per metric ton at importers bagging facilities. The maximum retail price to end users was set at SR 20 ($5.33 or $106.67 per metric ton). In return, the SAG pays 5 percent of the C&F price at Saudi ports as a profit to importers for barley imported and sold at the government set price ($4.80 per 50 kg of barley) as evidenced by sells invoices and SR 54 ($14.40) per metric ton to cover expenses related to L/C opening, unloading, transporting barley from sea port to bagging plants, and other related costs.

Trade Matrix

CALENDAR YEAR 2002 SAUDI ARABIA BARLEY IMPORTS LISTED BY SUPPLYING COUNTRIES:

	COUNTRIES									
Month	**Australia**	**Turkey**	**Germany**	**France**	**Russia**	**Ukraine**	**Holland**	**Romania**	**Other**	**Total**
January	158304	0	148759	0	0	108643	0	137455	51850	605011
February	286969	51750	76004	60499	60500	102358	0	0	0	638080
March	199877	117500	90500	57628	176701	49565	60500	0	0	752271
April	157551	35000	10000	0	0	0	88000	0	0	290551
May	80167	57750	60500	0	153035	53369	64812	0	0	469633
June	213920	0	60373	0	111519	0	0	0	0	385812
July	178196	0	210801	55120	0	0	0	0	60500	504617
August	0	0	132753	0	92133	234135	0	0	111435	570456
September	101685	0	0	0	0	236425	0	119859		457969
October	112993	0	0	0	161753	299799	0	91667	49505	715717
November	0	52500	0	60500	53250	185871	0	0	0	352121
December	0	0	53581	51098	100000	269890	0	0	0	474569
TOTAL	**1489662**	**314500**	**843271**	**284845**	**908891**	**1540055**	**213312**	**348981**	**273290**	**6216807**

Source: Trade Sources

Marketing year 2001 Saudi Barley Imports Data (July 2001-June 2002):

Month	Quantity in Metric Tons
July	378102
August	699910
September	414425
October	513917
November	183338
December	388965
January	605011
February	638080
March	752271
April	290551
May	469633
June	385812
TOTAL	5,720,015

Source: Trade Sources

Fiscal Year 2001 Saudi Barley Imports (October 2001-September 2002)

Month	Quantity in Metric Tons
October	513917
November	183338
December	388965
January	605011
February	638080
March	752271
April	290551
May	469633
June	385812
July	504617
August	570456
September	457969
Total	5,760,620

Source: Trade Sources

II. THE CURRENT WHEAT SITUATION

Overview:

All aspects of wheat continue to be controlled by the Ministry of Agriculture's agency Grain Silos and Flour Mills Organization (GSFMO.) Government policy is for farmers to produce only enough wheat to meet domestic needs, currently about two million mt. Saudi Arabia does not export or import wheat or wheat flour, with the exception of small quantities of mixed wheat flour for special baking needs. Some Saudi based grain importers do sometimes import wheat from the U.S. for exports to nearby countries. The Government guaranteed purchase price for wheat produced by small wheat farmers remains at $400 per metric ton. The government sells one metric ton of white and whole wheat flour at $142 and $207 respectively to end users. Large share holding companies were excluded from receiving wheat subsidies in 1993. Wheat production gives a return of at least $140 per metric tons to farmers. For this reason, each planting season, the government regularly faces overproduction problems as farmers exceed their production allocations to try to maximize their return on wheat. Last production season, farmers exceeded their total production quota by about 600,000 metric tons which GSFMO refused to buy since the excess production was not approved. The grain office told the farmers that they could keep the wheat and deliver it as part of this year's crop according to their individually assigned wheat production quotas for 2002/2003 production season. It is worth mentioning that the Kingdom produced about five million metric tons of wheat in the 1992/93 planting season.

Production, Supply and Distribution Table (PSD) Table for Wheat (in 1000 mt):

PSD Table						
Country:	Saudi Arabia					
Commodity:	Wheat					
	2001		2002		2003	
	Old	New	Old	New	Old	New
Market Year Begin		07/2001		07/2002		07/2003
Area Harvested	400	446	400	446		446
Beginning Stocks	1175	1050	1218	1053	1211	1050
Production	1843	2000	1800	2000	0	2000
TOTAL Mkt. Yr. Imports	100	3	20	3	0	3
Jul-Jun Imports	1	3	1	3	0	3
Jul-Jun Import U.S.	0	2	18	2	0	2
TOTAL SUPPLY	3118	3053	3038	3056	1211	3053
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0
Jul-Jun Exports	0	0	0	0	0	0
Feed Dom. Consumption	50	50	50	50	0	50
TOTAL Dom. Consumption	1900	2000	1827	2006	0	2010
Ending Stocks	1218	1053	1211	1050	0	1043
TOTAL DISTRIBUTION	3118	3053	3038	3056	0	3053

Flour Mill Privatization Plans:

The GSFMO continues to hold talks with the World Bank officials concerning privatization of the country's six flour mills. The mills are located in the cities of Riyadh, Jeddah, Dammam, Qassim, Khamis Mushayt, and Tabuk. However, no decision has been taken despite the elapse of about three years since the government announced its intention to do so. It is doubtful if the government would privatize the mills before deciding what to do with the local wheat production and the estimated 50,000 farmers who depend on it for their livelihood. According to some reports, the government will continue the current wheat subsidy policy even if it goes out of flour milling business. If the mills are privatized, the responsibilities of purchasing and selling locally produced wheat is expected to pass from the GSFMO to the Ministry of Finance and National Economy. The Ministry will be responsible for purchasing wheat at the GPP and selling it to local millers at subsidized rates, assuming the difference between the GPP price of $400 USD and the world market prices for wheat.

The total combined milling capacity of the six mills is 5,600 mt of wheat per day. If and when the mills are privatized, it is likely that the government will significantly reduce the import tariff on wheat (currently set at 100 percent) to allow traders to buy wheat on the world market. Allowing Saudi traders to buy wheat on the world market would lead to the production of many types and blends of wheat flour and the manufacture of a wide selection of breads and pastries. Note that the Saudi government does not impose import tariffs on barley, sorghum, or rice. Corn and soybean meal importers actually receive a rebate of $42.67 for every metric ton imported.

III. THE CURRENT RICE SITUATION

Overview:

No rice is produced in the Kingdom. Calendar Year 2002 Saudi Arabian rice imports are estimated at 824,000 mt, down by 14 percent from last year's level. Imports this year are forecast to increase by 9 percent from last year's level (see PSD table). The increase is attributed to a strong consumer demand, due mainly to the high population growth rate of 3.4 percent, increasing number of pilgrims that come to Mecca (more than five millions pilgrims come to Mecca each year to perform Ummra and Haj rituals) and exports (including food donations to nearby countries). The Saudi government does not impose import tariffs on rice, providing Saudi traders the opportunity to re-export imported rice to Yemen and other nearby destinations.

Production, Supply and Distribution Table (PSD) Table for Rice (in 1000 mt)

PSD Table						
Country:	Saudi Arabia					
Commodity:	Rice, Milled					
	2001		2002		2003	
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Area Harvested	0	0	0	0	0	0
Beginning Stocks	100	100	100	150	100	134
Milled Production	0	0	0	0	0	0
Rough Production	0	0	0	0	0	0
Milling Rate(.9999)	0	0	0	0	0	0
TOTAL Imports	970	939	970	824	0	900
Jan-Dec Imports	970	939	970	824	0	900
Jan-Dec Import U.S.	141	139	141	92	0	80
TOTAL SUPPLY	1070	1039	1070	974	100	1034
TOTAL Exports	30	10	30	10	0	10
Jan-Dec Exports	30	10	30	10	0	10
TOTAL Dom. Consumption	940	879	940	830	0	890
Ending Stocks	100	150	100	134	0	134

Saudi Rice Imports:

Total rice imports in CY 2002 decreased by more than nine percent compared to the previous year. The two main reasons given for the decline in rice imports last year were the lead scares in American rice which reportedly affected the total rice consumption for a few weeks early in 2002 and the boycott America campaign that drastically reduce the consumption of American rice for most of 2002.

Accounting for about 72 percent of Saudi rice imports in 2002, India has been the main beneficiary from the growing Saudi rice market. Basmati (white and parboiled) and Parimal rice are the leading Indian varieties imported. Based on official Indian Customs data, rice exports to Saudi Arabia from India jumped from 288,637 mt in 1995 to 640,000 mt in 2001. In CY 2002, the total Indian rice imports to the Kingdom were reduced by about 8 percent. Basmati rice accounted for 78 percent of the total Indian rice exports to the Kingdom in 2002.

The United States has remained the second largest rice supplier to the Kingdom (followed by Pakistan & Thailand) despite its declining market share in recent years. According to the U.S. Customs data, U.S. rice exports declined from 163,540 metric tons in CY 2000 to 92,147 metric tons in CY 2002 (a decrease of about 44 percent). According to trade sources, the boycott America campaign that started early in 2001 to protest alleged U.S. bias in favor of Israel in the continued Israeli-Palestinian conflict, was the main factor for the continued decline in the share of the American rice in Saudi rice Market for the past two years. It is worth mentioning that one significant American rice importer that used to import between 15,000 and 20,000 metric tons annually under its own brand name is now importing all its requirements from Spain due mainly to the boycott pressure. The firm began Spanish long grain parboiled rice imports in mid 2002.

Reasons for Increased Demand for Indian Rice:

Saudi rice traders believe Indian rice exports will continue to gain market share at the expense of mostly American rice for the following reasons:

1. A significant percentage of Saudis and expatriates with low incomes have shifted from U.S. rice to Indian Parimal rice (PR106). Indian Parimal parboiled rice was introduced in the Kingdom 9 years ago and has rapidly gained in popularity. Indian Parimal was instrumental in prompting a significant decline in exports of Thai parboiled rice to the Kingdom.

2. Competitive prices of Parimal and Basmati rice. Parimal rice is by far the least expensive parboiled rice available in the Kingdom, selling for far below one-half of the price of a major U.S. parboiled long grain rice brand. Retail price of 45 kg of Parimal rice as of March 2003 was $10.13 USD compared to up to$17.60 USD and $21.87 USDA per 45 kg for dominant U.S. parboiled rice sold in the Kingdom.

3. The Saudi rice trade acknowledges that the quality of U.S. rice is superior to Parimal rice, but concedes that the vast majority of consumers are unable to ascertain the difference between the two varieties. Sources allege that illicit traders often pass off Indian rice as American rice, by bagging Indian rice in bags associated with U.S.-origin rice. This practice, according to the trade, has been going on for several years, but is virtually impossible to stop.

4. The availability of dozens of brands of Basmati and non-Basmati rice, mainly from India, on the Saudi market has greatly increased competition at the expense of U.S. brands. There appears to be less than 10 different U.S. brands on the Saudi market.

5. While Indian and other rice are perceived as "natural" rice, U.S. rice has been frequently perceived as "manufactured," according to the Saudi rice trade. U.S. rice companies should work hard to dispel this myth.

Trade Matrix 2002 & 2001

The table below shows exports of rice to Saudi Arabia from leading suppliers, for calendar years

2002 to 2001. The data was provided by FAS offices in India, Thailand, and Pakistan and are based on official Customs Data from these countries.

Country of Origin	**CALENDAR YEAR Metric Tons**	
	2002	**2001**
India	590,000	640,000
U.S.	92,147	139,910
Pakistan	63,984	75,794
Thailand	58,309	69,101
Other	20,000*	15,000*
Total	**824,440**	**939,805**

Source: Supplying countries customs data
*Trade estimate (no data available for Spanish, Australian and Egyptian rice exports to Saudi Arabia.) The total annual imports from the three countries are estimated at 20,000 metric tons.

Saudi Rice Cleaning and Bagging Plant:

The Saudi company AJWA is the only rice cleaning and bagging plant in the Kingdom. AJWA buys rice in bulk from the United States and other destinations, particularly India, and cleans and bags the rice under its own brand names. The firm stopped bagging Uncle Ben's rice from the U.S. three months ago since the Saudi Uncle Ben's agent is now sourcing from the Uncle Ben's Spanish plant. The AJWA complex was built in 1995 and is located in Jeddah Port. It has the capacity to store 120,000 mt of rice and to process up to 450,000 mt of rice annually.

AJWA is responsible for unloading the vast majority of bulk grain shipments to Jeddah port. The plant is located next to three berths which it rents from the Port Authority. The berths can handle vessels carrying up to 100,000 mt of grains.

END OF REPORT